BC Liquor Distribution Branch

2015/16 – 2017/18
SERVICE PLAN

For more information on the BC Liquor Distribution Branch, contact:

2625 Rupert Street, Vancouver, BC V5M 3T5

604-252-3029

communications@bcldb.com

or visit our website at
www.bcldb.com

Accountability Statement

The 2015/16 - 2017/18 BC Liquor Distribution Branch (LDB) service plan was prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. The plan is consistent with Government's strategic priorities and fiscal plan. I am accountable for the contents of the plan, including what has been included in the plan and how it has been reported.

All significant assumptions, policy decisions, events and identified risks, as of January 21, 2015 have been considered in preparing the plan. The performance measures presented are consistent with the LDB's mandate and goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of the LDB's operating environment, forecast conditions, risk assessment and past performance.

R. Blain Lawson
General Manager and Chief Executive Officer

Table of Contents

Accountability Statement **3**

Strategic Direction and Context **5**

Performance Plan **6**

Financial Plan **12**

Summary Financial Outlook 12

Key Forecast Assumptions 12

Risk Analysis 13

Management Perspective on Future Financial Outlook 14

Appendices **15**

Appendix A: Hyperlinks to Additonal Information 15

Strategic Direction and Context

Strategic Direction

More than 2.6 billion dollars. That's the amount the BC Liquor Distribution Branch (LDB) is forecasting contributing to Government in the next three years, to help pay for vital public services.

At the heart of the LDB's strategy—and critical in continuing to meet Government revenue targets—is one word: modernization. As the LDB looks toward 2018, this theme undercuts action happening in every area of the business.

Perhaps the most significant transformation will happen on the distribution side, as the LDB works to develop a new warehouse facility to be operational by 2018/19. By taking advantage of the latest technology, business processes and modern supply chain operations, the new facility will vastly improve the LDB's ability to serve wholesale customers efficiently.

Changes stemming from the Liquor Policy Review—which will level the playing field between liquor retailers in spring 2015—will also require the LDB's retail business to modernize in order to succeed in an increasingly competitive marketplace. Moving toward a uniform wholesale price for all retailers, it will be more important than ever for BC Liquor Stores (BCLS) to offer an unparalleled shopping experience. The LDB looks forward to exploring possibilities of extending hours and refrigeration where it makes business sense, and is actively promoting a customer-centric mentality among its 3,600 employees.

Throughout these dynamic times, the LDB will be guided by direction from Government, as laid out in the LDB's 2015/16 Mandate Letter. The Taxpayer Accountability Principles, announced by Premier Christy Clark in June 2014, formalize the LDB's ongoing commitment to operational measures that strengthen accountability and promote cost control in the taxpayers' best interests.

Operating Environment

When a uniform wholesale price and liquor in grocery stores are introduced, the LDB will be operating in an increasingly competitive marketplace. This new market—combined with traditional economic pressures that can impact discretionary spending on alcohol—will necessitate continued monitoring of the marketplace and financial performance to make adjustments as required.

To ensure success in the new model, the LDB is introducing many technical and organizational changes that impact its internal environment. The new warehouse will transform the way LDB employees work and serve wholesale customers. Aging systems are a support and maintenance risk, so the LDB will continue to implement infrastructure and train staff to monitor these risks. A newly developed succession management strategy is also being implemented to ensure highly skilled people will be available to replace a large contingent of the LDB's workforce when they retire in the next five years.

Performance Plan

Goals, Strategies, Measures and Targets

While the LDB is facing increasingly dynamic times, its mission remains the same: To be a customer-centric, profitable retailer and wholesaler of beverage alcohol dedicated to innovation, examplary service, helpful product knowledge and corporate social responsibility.

The LDB aims for an extraordinary level of service for wholesale and retail customers.

To remain successful, the LDB strives toward five goals related to financial performance, workplace quality and employee excellence, customer experience, business effectiveness and corporate social responsibility. These goals are supported by specific strategies and performance measures and underpinned by the Taxpayer Accountability Principles.

Goal 1: Financial Performance

Meet financial objectives approved by Government.

Strategies

- Grow sales and effectively manage operating expenses.

Performance Measure 1: Net income

Performance Measure	2013/14 Actual	2014/15 Forecast	2015/16 Target	2016/17 Target	2017/18 Target
Net income (in $millions)	877.0	907.6	880.6	895.6	910.2

Data Source: BCLS sales data is collected from computerized point-of-sale cash register systems and stored in Head Office databases. Sales made directly to customers by authorized representatives on behalf of the LDB are transmitted to the LDB and stored in databases. LDB financial statements are audited by the Office of the Auditor General annually. LDB expense data is captured, stored and reported by the LDB's financial system.

Net income is the LDB's contribution to the provincial government from the total sales of beverage alcohol in the province and is audited by the Office of the Auditor General of British Columbia. LDB net income is a significant contributor to provincial government revenues. The 2014/15 forecast

includes a one-time gain due to the sale of the property where the LDB's current warehouse in Vancouver is located. Excluding this gain, the LDB's forecasted net income for 2014/15 is $870.7 million.

Goal 2: Workplace quality and employee excellence

Create a work environment that encourages greater employee engagement.

Strategies

- Enhance staff skills and engagement through leadership development, employee training and increased communication
- Implement succession management plans for the organization.
- Provide a safe, healthy and harassment-free workplace.

Empowering employees

"Organizations that focus on supporting their employees to learn and develop secure a competitive advantage in today's marketplace."

—Cary Sheppard, LDB Director of Learning Services

Performance Measure 2.1: Employee engagement

Performance Measure	2013/14 Actual	2014/15 Forecast	2015/16 Target	2016/17 Target	2017/18 Target
Employee Engagement	69	n/a	70	n/a	71

Data Source:
BC Stats conducts the employee engagement survey for the LDB.

The LDB measures employee engagement every two years through the Workplace Environment Survey (WES) by asking employees about their work environment. Compared to global workplace engagement averages which typically hover around 60 per cent, the LDB's 2013/14 WES score of 69—slightly below its target score of 70—reflects a healthy work environment. Given the widespread organizational changes that are on the horizon, the LDB believes that aiming for a one per cent increase in employee engagement every two years is a challenging target.

Goal 3: Customer experience

Maintain a high level of wholesale and retail customer satisfaction.

Strategies

- Continuously refresh the store network.
- Continuously provide enhanced customer services.

Performance Measure 3.1: Retail Customer Satisfaction

Performance Measure	2013/14 Actual	2014/15 Forecast	2015/16 Target	2016/17 Target	2017/18 Target
Retail customer satisfaction	n/a	90%	n/a	90%	n/a

Data Source:
The LDB contracts with professional survey companies to conduct the retail and wholesale customer service surveys.

Performance Measure 3.2: Wholesale Customer Satisfaction

Performance Measure	2013/14 Actual	2014/15 Forecast	2015/16 Target	2016/17 Target	2017/18 Target
Wholesale customer satisfaction	n/a	90%	n/a	90%	n/a

Data Source:
The LDB contracts with professional survey companies to conduct the retail and wholesale customer service surveys.

Every two years, BC Liquor Store retail customers and wholesale customers (bars, restaurants and private retailers) are surveyed by a professional survey company to determine customer satisfaction. Due to the importance of customer satisfaction to the LDB's success, a target of 90 per cent has been set for both retail and wholesale customers. Setting a consistently high bar for customer satisfaction ensures the LDB maintains its customer focus year after year. Achieving 90 per cent customer satisfaction in a retail environment represents a very high level of satisfaction.

Goal 4: Business effectiveness

Maintain operating efficiencies in a climate of constant change.

Strategies

- Maximize the potential efficiencies available through improved distribution operations.
- Increase the use of current and cost-effective technology.

Performance Measure 4.1: BC Liquor Store sales per square foot

Performance Measure	2013/14 Actual	2014/15 Forecast	2015/16 Target	2016/17 Target	2017/18 Target
BC Liquor Store sales per square foot	$1,222	$1,303	$1,190	$1,215	$1,240

Data Source:
BCLS sales data is collected from computerized point-of-sale cash register systems and stored in Head Office databases. Sales made directly to customers by authorized product representatives on behalf of the LDB are transmitted to the LDB and stored in databases. LDB financial statements are audited by the Office of the Auditor General annually.

This indicator is based on the annual dollar sales of the store system divided by total store system square footage, which measures how well the LDB converts its floor space into sales. Decreasing targets over the next several years are the result of forecasted changes to the distribution model, where business will be shifted from the retail stores to the wholesale customer centre. The impacts of this shift are expected to be partially offset by the potential for expanded hours and refrigeration in BCLS.

Performance Measure 4.2: Distribution Centre labour cost per case shipped

Performance Measure	2013/14 Actual	2014/15 Forecast	2015/16 Target	2016/17 Target	2017/18 Target
Distribution Centre labour cost per case shipped	$1.68	$1.74	$1.75	$1.76	$1.77

Data Source:
Orders and shipments processed by the LDB Distribution Centres are captured and stored by computer applications designed for this purpose.

This productivity measure is calculated by dividing Distribution Centre labour expenses by total case shipments. Prior to the construction of a new Distribution Centre, additional warehouse space may need to be leased. As a result, the LDB forecasts additional labour costs per case may be incurred as product moves back and forth between two warehouses.

Performance Measure 4.3: Distribution Centre order fill rate

Performance Measure	2013/14 Actual	2014/15 Forecast	2015/16 Target	2016/17 Target	2017/18 Target
Distribution Centre order fill rate	93%	93%	93%	93%	93%

Data Source:
Orders and shipments processed by the LDB Distribution Centres are captured and stored by computer applications designed for this purpose.

This is a measure of the completeness of orders filled by the LDB Distribution Centres and is calculated by dividing the number of ordered items that are filled completely by the total number of items ordered. The calculation excludes products that are not stocked by the LDB Distribution Centres. Setting a consistent target of 93 per cent strikes the right balance between the effective management of inventory and the minimization of product stock-outs.

Goal 5: Corporate social responsibility

Encourage the responsible use of beverage alcohol and minimize the impact of operations on the environment.

Strategies

- Prevent sales to minors or intoxicated persons in BC Liquor Stores through staff education and enforcement of ID-checking requirements.
- Promote awareness of responsible use by continuing co-operative programs with suppliers and other stakeholders.
- Reduce the impact of operations on the environment by reducing waste, increasing recycling rates and achieving carbon neutrality on an annual basis.

Performance Measure 5.1: Store compliance with ID-checking requirements

Performance Measure	2013/14 Actual	2014/15 Forecast	2015/16 Target	2016/17 Target	2017/18 Target
Store compliance with ID-checking requirements	82%	100%	100%	100%	100%

Data Source:
LCLB administers an ID compliance checking program and provides the results of BCLS compliance to the LDB.

In fiscal 2011/12, the Liquor Control and Licensing Branch (LCLB) of the Ministry of Justice implemented an ID-checking program for liquor stores that uses underage agents to test compliance. The target of 100 per cent reflects the importance to the LDB of preventing sales to minors.

Performance Measure 5.2: Customer awareness of LDB corporate social responsibility programs

Performance Measure	2013/14 Actual	2014/15 Forecast	2015/16 Target	2016/17 Target	2017/18 Target
Customer awareness of LDB corporate social responsibility programs	n/a	90%	n/a	90%	n/a

Data Source:
The LDB contracts with professional survey companies to conduct the retail and wholesale customer service surveys.

The LDB encourages the responsible use of beverage alcohol by use of promotional posters and other materials in stores. Every two years, the LDB measures customer recall of these materials through a survey, with a 90 per cent target set to ensure the LDB develops impactful and relevant messaging. Setting a consistently high target of 90 per cent for customer awareness of social responsibility programs represents a significant and ongoing challenge for the LDB.

Performance Measure 5.3: Waste diversion rate at Head Office and Vancouver Distribution Centre

Performance Measure	2013/14 Actual	2014/15 Forecast	2015/16 Target	2016/17 Target	2017/18 Target
Waste Diversion Rate	n/a	70%	75%	80%	80%

Data Source:
Waste diversion rates represent the weight of material diverted from the landfill through composting and recycling as a percentage of the total weight of waste material generated. Rates will be determined based on measured weights reported by a contracted waste and recycling service provider.

In 2013/14, the LDB developed this comprehensive environmental performance measure, which will eventually be expanded to include diversion rates for BC Liquor Stores and the Kamloops Distribution Centre, with intensity-based targets focused on reducing disposable materials and waste generated from LDB operations.

Financial Plan

Summary Financial Outlook

(in $ millions)	Actual	Forecast	Targets		
	Fiscal 2013/14	Fiscal 2014/15	Fiscal 2015/16	Fiscal 2016/17	Fiscal 2017/18
Sales, net of commissions and discounts	2,745.5	2,808.3	2,842.1	2,900.4	2,959.9
Cost of sales	1,581.4	1,622.3	1,628.4	1,664.1	1,700.4
Operating Expenses - Employment	162.8	172.5	177.0	178.9	180.8
Operating Expenses - Rent	39.7	42.8	45.6	47.9	50.3
Operating Expenses - Administration	97.1	107.8	118.5	121.9	126.2
Other income	12.5	44.7	8.0	8.0	8.0
Net income	877.0	907.6	880.6	895.6	910.2
Capital	12.9	30.4	34.0	64.7	59.5
Debt	0	0	0	0	0
Retained Earnings	0	0	0	0	0

Key Forecast Assumptions

Effective April 1, 2015, the LDB is implementing a new wholesale model with the intent that shelf prices remain relatively unchanged. As well, Government has announced that grocery stores will be permitted to sell alcohol beginning April 1, 2015. Due to these significant changes, the future years' forecast has included the following assumptions:

- Market share and product mix remains stable for all future years;
- The impact of grocery stores has not been included;
- Fiscal 2015/16 overall net sales growth will be flat; and,
- For fiscal 2016/17 and onwards, annual sales will increase by two per cent due to a combination of inflation and volume growth.

Capital requirements reflect expenditures for updating and improving stores, technology-related projects and ongoing equipment replacements.

In August 2014, the property where the LDB's current Vancouver warehouse is located on East Broadway was sold. The LDB has entered into an agreement to lease the current facility until the LDB can relocate the warehouse and distribution operation. Efficiency gains are expected to come from additional size, modern and higher racking, improved aisle access, improved receiving and shipping bays, some automation, and an improved working environment.

Risk Analysis

Beverage alcohol is a highly regulated product and its consumption can be influenced by government decisions such as hours of operation of establishments that sell or serve liquor products and drinking and driving laws. These types of policy decisions can have a significant impact on LDB revenue.

The LDB's financial performance is also affected by economic conditions:

- Changes in the marketplace—it is unknown at this time how the introduction of grocery stores as retailers of beverage alcohol will impact the current retail environment;
- Price competition among suppliers of wine, spirits and refreshment beverages—as mark-up on these products is percentage-based, a reduction in the supplier price will result in less LDB revenue, assuming a constant volume; and,
- Beverage alcohol is a discretionary consumer product and sales are affected by economic conditions—consumer confidence dictates entertainment dollars spent on alcohol.

Weather patterns and timing of statutory holidays are other factors that influence LDB revenue. A hot, dry summer and long weekends result in increased sales, particularly in the refreshment beverage and packaged beer categories. Conversely, adverse weather conditions have a negative impact on liquor sales. The day of the week statutory holidays fall on also have an impact on sales—when they fall on Mondays or Fridays, sales are much stronger than when they fall on Tuesdays or Wednesdays.

The LDB monitors all of these factors, using the best information available to ensure sound decisions on such things as product mix and supply, and the staffing complement required in retail stores.

Cost of Goods Sold

Each percentage change in the cost of products in the wine, spirits and refreshment beverage categories has a direct effect on net income of approximately $9 million due to the percentage-based mark-up on these products.

Beer has a per litre mark-up and therefore cost of sales as a percentage of sales, will increase with higher beer prices. BC wines have lower gross margins due to the markup policy on direct delivery VQA wines and wines produced from 100 percent BC grapes. As these two categories grow, cost of goods as a percentage of sales will continue to increase.

Management Perspective on Future Financial Outlook

British Columbia's liquor industry will experience some significant changes as it begins to modernize. Many of these changes reflect recommendations identified in the 2013 Liquor Policy Review. Some of these recommendations have changed liquor policies which will likely impact B.C.'s liquor industry, including the LDB, and include:

- Introduction of a single wholesale price for all beverage alcohol retailers in April 2015;
- Expansion of Sunday and statutory holiday openings for BCLS;
- BCLS being allowed to extend hours as required;
- Expansion of refrigeration in BCLS;
- Sales of beverage alcohol in grocery stores; and,
- BCLS being subject to the one kilometre restriction (which previously only applied to private retailers).

A single wholesale price for all retailers (including BCLS) will eliminate the present system's pricing inconsistencies, where varying purchase discount prices apply depending on the type of retailer. BCLS will have to purchase product at the same price as other retailers; however, some current restrictions will be removed and the LDB will be able to consider Sunday and statutory holiday openings, extending hours and refrigeration. This could result in a shift in market share.

In April 2015, grocers that meet the regulatory requirements will be allowed to sell beverage alcohol—a move which could have a profound impact on the retail landscape and force other retailers to be more competitive. Rapid expansion of beverage alcohol in grocery stores will be moderated, though, by current regulations preventing a liquor retailer from moving within one kilometre of another retailer. In addition, the moratorium on new Licensed Retail Store licences has been extended to the year 2022.

The LDB will adapt its operations to meet the changing demands of the retail and wholesale environment. Wholesale and retail operations will be separated and there will be different operational oversight for each division within a common corporate management structure. The LDB will monitor wholesale margins to protect Government's revenue targets. Changes in product mix, especially with the entry of grocery stores, will be closely monitored and adjustments made where appropriate to meet targets.

In order to meet the challenges of the new beverage alcohol landscape, both retail and wholesale operations will have to continually monitor performance, anticipate the direction of the market through the use of predictive analytics and make changes in order to capitalize on the demands of consumers. The new warehouse, which is anticipated to be operational in 2018/19, will drive greater efficiencies in product delivery and will meet the demands of the years ahead.

Appendix A:

Hyperlinks to Additional Information

The LDB's organizational overview and corporate governance structure can be found here.